

THE BUSINESS CYCLE



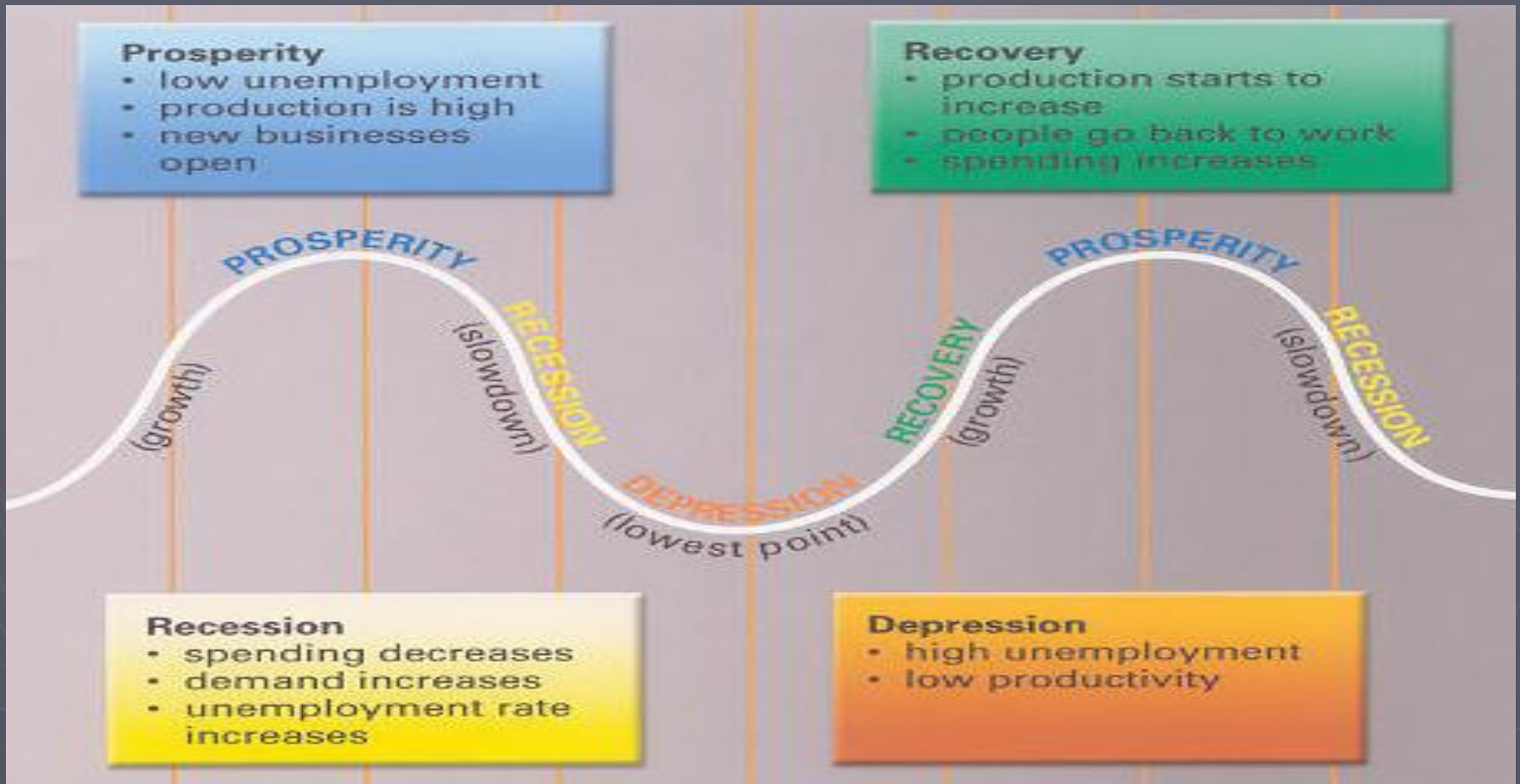
The Business Cycle

- ▶ Over long periods of time economic changes seem to form patterns.
- ▶ The rise and fall of economic activity over time is called the *business cycle*.

The Business Cycle

- ▶ The four phases of the business cycle are:
 - Prosperity
 - Recession
 - Depression
 - Recovery

The Business Cycle Model



- ▶ The repeated rise and fall of economic activity over time is called a business cycle.
- ▶ What are the four phases of the cycle?

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PROSPERITY

- ▶ Prosperity, however, does not last. Any number of things can change:
 - Companies produce too much
 - People stop buying
 - Inflation starts to rise

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RECESSION

- ▶ During a recession, economic activity slows down.
- ▶ There is a general drop in productivity and the GDP declines.
- ▶ A recession can affect only one industry, related industries, or spread to the entire economy.

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RECESSION

- ▶ The *ripple effect* is when a recession in one industry leads to a recession in other industries.

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DEPRESSION

- ▶ During a depression there is high unemployment, low productivity, and excess capacity in manufacturing plants.
- ▶ A depression can be limited to one country but usually spreads to related countries.

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DEPRESSION

- ▶ The stock market crash on October 29, 1929, or “Black Tuesday,” marked the beginning of the Great Depression.
- ▶ Between 1929 and 1933, GDP fell from 103 billion to 55 billion.
- ▶ During the Great Depression, unemployment rose nearly 800%.

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DEPRESSION

- ▶ During the Great Depression, many banks failed.
- ▶ The money supply fell by 1/3.

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RECOVERY

- ▶ A rise in business activity after a recession or depression is called *recovery*.
- ▶ During a recovery:
 - Production starts to increase
 - People start going back to work
 - New demand for goods and services stimulates more production
 - The GDP grows
 - New businesses open

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RECOVERY

- ▶ A recovery can take a long time or it can happen quickly.
- ▶ During WW2, the U.S. recovered from the Great Depression much faster because of the demand for war production